Path to Improving the DFAS Managers' Internal Control Program

Zack E. Gaddy

Director, Defense Finance and Accounting Service

December 1, 2005

Overview

- **Who We Are**
- **Internal Control Philosophy**
- **Material Weakness Closure Steps**
- **Management Approach to Improvement**
- **Summary – Key Points**

DFAS Mission, Vision, and Goals

Mission:

Provide accounting and finance services for the Military Departments and Defense Agencies

Vision:

Transforming today to be the trusted financial partner for tomorrow's warfighter

We pay the people who defend America

We pay the contractors who support the warfighters

We provide financial information to DoD decision makers

Strategic Goals:

- **Attain operational excellence in finance and accounting services**
- **Deliver financial information on-demand for decision-makers**
- **Transform DFAS to become a Center of Excellence**
- **Attain a highly professional workforce with indispensable skills and competencies**

DFAS – What We Do

Mission: ***Provide accounting and finance services for the Military Departments and Defense Agencies***

005 Sales & Service - $1.62

• Military Pay	$190.8M
• Civilian Pay	$63.8M
• Retiree Pay	$52.8M
• Travel Pay	$66.3M
• Commercial Pay $178.7M	
• Accounting Services	$786.6M
• Others	$280.9M

2005 People

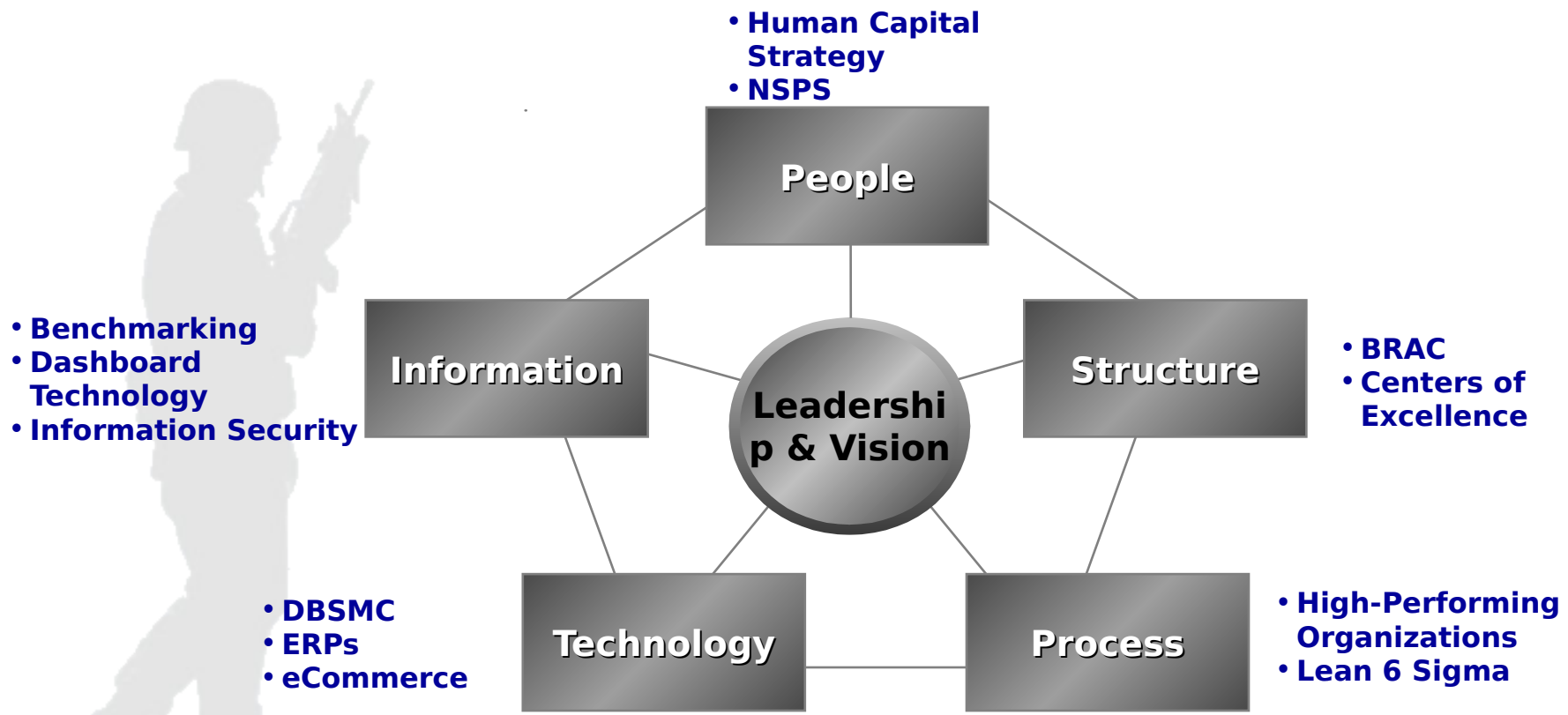
- 14,176[1] Civilians & Military
- Located in:
  - 30 sites
  - 17 states
  - 3 countries

[1] Actual on-board

2005 Scope of Business

- Processed 104 million pay transactions (5.9 million people)
- Made 6.9 million travel payments
- Paid 12.6 million commercial invoices
- Posted 127.3 million general ledger transactions
- Managed military retirement and health benefits funds ($234 billion)
- Made $455 billion in annual disbursements to pay recipients
- Managed $13.5 billion in foreign military sales (reimbursed by foreign governments)
- Account for 282 active DoD appropriations

Transformation Blueprint



Internal Control Philosophy

- **Manager's should know weaknesses before an audit finding or adverse event occurs**
- **Employees should freely communicate to managers any internal control issue – no hidden weaknesses**
- **No one will be punished if weaknesses are reported timely**
- **Internal control program should be fun**
- **Communicate successes**

Material Weakness Closure Steps

- **Focus on processes when system solution is not available**
- **Determine root cause and put boundaries on scope**
- **Determine solution and establish business rules**
- **Test solution**
- **Independent validation of corrective actions**

FY 2005 Material Weakness Status

Business Line	Ending Balance FY 2004	Opened FY 2005	Closed FY 2005	Ending Balance FY 2005
Accounting	10	1	6	5
Commercial Pay	3	1	4	0
Military & Civilian Pay	3	1	4	0
Corporate Resources	2	1	3	0
Acquisition Management	0	1	1	0
Total FY 05 Weaknesses	18	5	18	5
	23			

Management Approach to Improvement

Categories	Processes

• Oversight/Governance	• Executive Council
	• Executive Steering Group
	  • Senior Assessment Team
	  • Senior Management Council

• Accountability	• Executive/Manager Performance Evaluation
• Verification/Validation	• DFAS Internal Review
• Status Reviews	• Monthly Consolidated Balanced Scorecard Briefings
• Tools	• High Risk Dashboard • ePerformance Assessment Tool • Audit Tracking Database

Management Approach to Improvement

- **Increase focus on risk**
- **Link internal control processes to internal control reporting to audit follow-up**
- **Establish Balanced Scorecard reporting to increase focus on developing mitigation of material weaknesses**
- **Conduct internal review to determine best practices and program improvement**

Summary – Key Points

- **Obtained management buy-in**
- **Communicated strategy for closing weaknesses**
- **Cascaded communication throughout workforce**
- **Implemented robust management approach**
- **Identified and implemented tools**

DFAS

Your Financial Partner @ Work